

PE1816/A

Minister for Public Finance and Migration submission of 13 August 2020

Introduction

The Scottish Government is committed to making local taxation more progressive, whilst improving the financial accountability of local government. During the course of the Budget 2019-20 process, we committed to implement a package of local tax reforms intended to deliver the most significant empowerment of local authorities since devolution. This reflected our commitment to subsidiarity and local democracy being taken forward through the joint Local Governance Review with COSLA. In response to the review's initial findings, we jointly announced that we will further empower communities and local councils across Scotland. As part of the review process, councils are invited to work with local partners to develop proposals for fiscal and functional empowerment which demonstrate strong potential to improve outcomes for people in the places they serve.

Reforming Council Tax

The Scottish Government very much recognises some of the criticisms of the present Council Tax set out in the Background Information provided by the petitioner. This is why we have repeatedly endorsed the Commission on Local Tax Reform's conclusion that 'the present council tax system must end'

The Commission on Local Tax Reform, which reported in 2015, engaged in the wide scale debate suggested by the petitioner, with public engagement sessions, calls for written evidence, oral evidence sessions, on line questionnaires to capture public opinion and publishing commissioned research.

More recently, the Scottish Government convened cross party talks to identify an alternative to the present Council Tax that would be supported by Parliament. This was potentially the most important commitment in our package of local tax reforms, given the significance of Council Tax's contribution to the funding of local public services and also, its connection to every household in Scotland, including those who are entitled to relief through the Council Tax Reduction Scheme.

The cross party approach, with the talks being co-chaired by Cllr Gail MacGregor as COSLA's resources spokesperson, is necessary as there is no consensus in Parliament on what might replace the present Council Tax – indeed when Parliament debated local taxation in March 2018, a motion to scrap the Council Tax was not carried. Our commitment extended to us preparing and publishing draft legislation, should agreement on an alternative be agreed, by the end of this Parliament, with that legislation taken forward in the following Parliament.

Unfortunately, and with the agreement of the co-chair, we had to pause these talks in March to allow Scottish Ministers and COSLA to focus on the extraordinary pressures emerging from the COVID 19 pandemic response, including the support measures put in place for business, communities and local government. In doing so, Scottish Ministers were very clear that this was a pause until such time as those extraordinary pressures had passed. Although the pandemic situation continues to

create challenges, Scottish Ministers are committed to recommencing these talks at a suitable opportunity this Autumn.

Devolving More Tax Powers to Local Authorities

The Scottish Government recognises the potential benefits of devolving appropriate tax powers to local government described in the petitioner's background notes. This is why, as well as convening cross party talks to try and identify an alternative to the present Council Tax that could be supported by Parliament, the Scottish Government set about delivering on the other local tax reform commitments made during the 2019-20 budget process. For example, the Transport (Scotland) 2019 Act, passed by Parliament in October 2019, creates the power for councils to introduce a workplace parking levy, if it is appropriate for their local authority area.

We also completed a public consultation on a local discretionary visitor levy to inform the preparation of a draft Bill intended to be introduced in the Spring of this year. If enacted, this would have provided local authorities with the power to introduce such a levy if they considered it appropriate for local circumstances. However, it became clear in March of this year, as the scale of the COVID 19 pandemic situation became evident, that it was appropriate to pause this work given the demands on Parliamentary time and also, the impact the pandemic had on the tourist accommodation sector.

This situation continues and the emerging market for tourist accommodation is very different to the circumstances prevailing prior to the COVID 19 pandemic. We will therefore consider the future options for this work, including engaging both industry and local authority stakeholders, in due course.

The package of local tax reforms we announced at the 2019-20 budget also included a number of other measures that would have a major impact on local taxation, such as the devolution of Non-Domestic Rates empty property relief, and also local government finance more widely. These latter commitments included the development, in partnership with COSLA, of a rules based framework for local government funding which would be introduced in the next parliament. Unfortunately, as the demands on Ministers, as well as officials in COSLA and the Scottish Government, arising from the COVID 19 pandemic situation became evident, it was necessary to temporarily halt this work in March. However, we hope this can be recommenced later this year.

Devolving Tax Powers to Local Authorities

Consideration of the devolution of taxes to local government must ensure the wider impacts, including on local government finance to be understood. For example, the COVID 19 pandemic has highlighted the value of a national co-ordinated approach to Non-Domestic Rates which also allows for local discretion. The current funding settlement protects councils from volatility in Non-Domestic Rates income with the Scottish Government guaranteeing the combined income received by councils from Non-Domestic Rates and General Revenue Grant. In financial year 2020-21, the Scottish Government has taken steps to effectively underwrite almost £1 billion of

Non-Domestic Rates (NDR) income for local government. This decision has protected businesses and, unlike in England, has protected council funding.

The Background Information provided by the petitioner makes reference to the IPPR report "Thinking Bigger on Tax in Scotland". The Scottish Government welcomed this report in which the authors advance a number of potential new local taxes, with the stated aim (in page 5 of the report) being to "outline what might be possible and pose questions for discussion and illustrative ideas for debate".

Conclusion

The Scottish Government is pleased to restate its view that the present council tax system must end and also to restate its ambitions for local taxation more generally. However, the COVID 19 pandemic response meant that much of the work then underway, to deliver policies that would realise those ambitions, had to be paused.

The pandemic continues to have an unprecedented impact on the economy, on businesses and households, and on public services. We are committed to continuing our joint partnership working with local government, including in the Local Governance Review, as well as recommencing our cross party working, to identify the most appropriate next steps in the future of local taxation in the light of these radically changed circumstances.